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VIA FEDERAL EXPRESS

Mr. Pandor Hadjy
Assistant Deputy Administrator
Business Programs
RBS
Room 5050 South Agriculture Building
Stop 3220
1440 Independence Avenue, S.W.
Washington, D.C. 20250-3220

Re: Expanding Rural Renewable Fuels Systems

Dear Pandor Hadjy:

The California Farm Bureau Federation ("California Farm Bureau") appreciates the opportunity to comment on the implementation of Section 9006 of the Farm Security and Rural Investment Act of 2002. Although circumstances prevented a California Farm Bureau representative from attending the December 3, 2002, public meeting, the matter is of keen importance to California's farmers and ranchers.

California Farm Bureau is a voluntary, non-profit corporation representing more than 95,000 members throughout California. California Farm Bureau's members expect to pay in excess of $850 million for their electric service in 2002. In many instances the cost of energy, electricity and natural gas, comprise a significant portion of a grower's cost of production. Because of the financial impacts from recent increases in California energy rates and the overall condition of the farming economy, California Farm Bureau supports energy programs which deliver direct benefits to agricultural operations with limited upfront costs, projects with both short-term immediate gains and as well as those with long-term projected successes.

Interest in pursuing alternative measures of producing energy or installation of energy-saving devices often spikes along with the spiking of energy rates. Increases in California's 2001 energy rates certainly intensified efforts to seek real reductions in energy usage and long-lasting alternatives to traditional power production methods. During 2001 energy rates for California customers rose by about 4.5/kWh, increasing agricultural average electric rates to approximately 14.5/kWh. With a portion of that increase resulting from long-term contracts with a 10-year duration, bond charges with a 20-year payoff and efforts to make some utilities whole, there is little expectation that electricity rates will fall significantly over the next few years. Natural gas customers who experienced extreme spikes in prices for most of 2001 are also examining ways to augment efficiency. Interest in methods to improve efficient use of energy on the farm will continue to increase over the next few years as the industry becomes more aware of cost-saving opportunities.

California Farm Bureau submits the following specific comments on issues related to Section 9006:

1. The Act stipulates that financial assistance may be provided to purchase renewable energy systems and make energy efficiency improvements.

There is value in expending resources or both innovative and proven technologies. Although the majority of funds should be used on technologies, which can provide immediate gains to reduce energy usage and benefit agriculture, some portion should be set aside to build on opportunities for the future. Technologies that are beyond the development stage and into demonstration levels could benefit dramatically from specialized funding that continues for a number of years. With focused effort over a few years, such projects could be ready for broader application. New technologies frequently require greater oversight by the user, thereby limiting availability to a restricted group of customers.

Technologies, which can be made available to all sizes and types of operations, should be the key focus of funding. With that caveat the availability of projects is quite limitless. In California, for example, water pumping is a primary cost driver of energy costs and spawns a number of opportunities for efficiency improvements on the farm. However there are myriad other measures that provide short-term, concrete results in dairy operations, packing operations, cold storage facilities and other integral farming activities. For renewable resources, special interest has recently been focused on solar powered applications and biogas digesters, with rules and regulations, such as net metering, better facilitating installations and operations.

Where feasible, funding that delivers multiple benefits can provide more effective use of resources. Biogas digesters are primary examples of renewable energy producers that may provide environmental in addition to energy related benefits. Conversion to drip irrigation from other methods, allows users to shift usage to time periods where less demand is placed on the system, as well as to use water more efficiently.

2. Loan guarantees, direct loans, and grant programs are authorized under the legislation.

Grant funding must play a major role in implementation of the program in order to provide benefits to average operations. Without a strong reliance on grants, the already hard-hit, agricultural sector will have limited access to the opportunities available. Many operators simply do not have the resources to pursue loans for projects that the program will make available. California saw evidence of such response, when funding was made available during the 2001 energy crisis. The authorized programs required operators to provide all funds up front, with later reimbursement. Such procedures deterred many otherwise qualified applicants. Nevertheless, it is recognized that use of loans in some form will make benefits available to more recipients. In this instance, as in others, it is important to make available a variety of methods of assistance.

3. Section 9006 states that, in determining the amount of grant or loan, the Secretary shall take into consideration various factors.

In reviewing the amount of energy savings from an activity, a percentage decrease over prior usage should be included as a factor, as opposed to lump sum savings. Otherwise large-scale projects would easily eclipse opportunities to provide funding to a range of operations. Furthermore, when calculating energy

savings, the seasonal nature of many agricultural activities must be weighed. Under some energy savings calculations, seasonal activities are measured against annualized energy usage, thereby making it impossible for them to compete with year-round activities. As it will be important to include seasonal activities in this program, appropriate measurements must be utilized. For innovative efficiency technologies, consideration should be given to the ability to replicate the system, as considered for renewable projects.

4. The Act states that the amount of grant shall not exceed 25 percent of the cost of the activity funded under the program.

Many operations will not be able to undertake projects for which funding is limited to 25%. In California each natural gas and electric customer of an investor-owned utility pays a per unit charge for improvements to energy usage. Electric customers pay 0.25/kWh to support energy efficiency, renewable and research projects. Administered through the oversight of the California Energy Commission and the California Public Utilities Commission, programs available to agriculture have been limited in the past, but are improving. Even with such improvement, programs targeted at agriculture are limited to select energy efficiency programs. California customers would benefit from access to funding for expanded programs by the ability to partner other funds with those available in California.

Programs derived from the per usage charge, as well as tax-based programs, have demonstrated that agricultural targeted programs require a greater lead-time than other industries to prove benefits. The seasonal nature of agriculture and its locational characteristics require specialized efforts to effectively reach interested participants.

California Farm Bureau Federation appreciates the focused efforts to bring about benefits in energy usage to agriculture. The energy industry has been prone to look for quick wins for energy efficiency projects, focusing on improvements to residential and commercial sectors' lighting and HVAC needs. Scant attention has been given to the specialized needs of agriculture, where with appropriate information and technology major achievements are possible. We look forward to the development of the important program renewable energy and energy efficiency improvements.

Respectfully submitted,

KAREN NORENE MILLS

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